

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  FRONTIER COMMUNICATIONS OF IOWA, INC.	DOCKET NO. TF-00-280 (RPU-95-12)
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**ORDER ESTABLISHING PRICE PLAN RATE REDUCTION  
AND APPROVING TARIFF**

(Issued December 29, 2000)

On November 6, 2000, Frontier Communications of Iowa, Inc. (Frontier-Iowa), filed a proposed tariff with the Utilities Board (Board) designed to adjust rates in compliance with its price regulation plan. The proposed tariff has been identified as Docket No. TF-00-280. The proposed tariff reflects a reduction in basic communications services (BCS) rates by 1.1 percent based upon a deferred decrease from year four of the plan and an increase for the current year of the plan. Frontier-Iowa filed its calculation for year four on November 3, 1999, and that calculation showed a required decrease of 1.3 percent. That decrease was deferred as authorized by Iowa Code § 476.97(6). Frontier-Iowa calculated for the current year of the plan, year five, it is entitled to an increase of 0.2 percent.

On November 22, 2000, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to the proposed tariff. Consumer Advocate contends that Frontier-Iowa has miscalculated the year five-inflation rate by not using the most recently available Gross Domestic Product Price Index (GDPPI).

Consumer Advocate states that the most recent GDPPI rates are in the November 2000 edition published by the U.S. Department of Commerce and that the GDPPI rates used "must be obtained from a single edition of the Survey of Current Business." Consumer Advocate asserts that the most recent rates result in a required decrease of 0.3 percent for year five, which must either be combined with the deferred decrease from year four or deferred for a year.

The Board issued an order on December 6, 2000, docketing the proposed tariff for further review. The Board stated that it is addressing a similar issue in Docket No. TF-00-250, involving the price regulation plan of Qwest Corporation, f/k/a U S WEST Communications, Inc., (Qwest). A resolution in that docket of the correct GDPPI rates to utilize in the calculation of the inflation rate under the Qwest price regulation plan will provide guidance for the resolution of the issues in this docket.

The Board on December 21, 2000, issued an order in Docket No. TF-00-250. In that order the Board found the price plan language requires that the calculation of a price increase or decrease utilize the last available GDPPI prior to the anniversary date of the price plan. In this case the anniversary of the plan is December 31, 2000. The last available GDPPI that will allow for the filing of proposed tariff prior to the anniversary date is the November 2000 preliminary estimate GDPPI. Based upon the decision that the GDPPI required by the price plan is the November preliminary estimate, the correct GDPPI that should have been used in 1999 was the November 1999 preliminary estimate.

The Board finds that the GDPPI's used in the calculation of an increase or decrease under the Frontier-Iowa price plan do not need to come from the same Survey of Current Business. The GDPPI is established each year using the last available GDPPI prior to the anniversary date of the plan. Once the last available GDPPI is established then it does not change for any succeeding calculation. If the GDPPI's were allowed to be changed after the increase or decrease is calculated, the company could potentially be in violation of the statutory limits on deferrals using a revised GDPPI.

The Board finds that Frontier did not use the November 1999 preliminary estimate GDPPI in calculating the 1.3 percent decrease for the year ending December 31, 1999. Frontier used the October advance estimate, which was 104.38. The correct GDPPI should have been the November preliminary estimate, which is 104.42. The Board has not adjusted the GDPPI filed by Frontier-Iowa in 1998 since the Bureau of Economic Analysis modified its base year in October 1999. The GDPPI from 1998 is 103.6.

The Board has recalculated the decrease for the year ending December 31, 1999, using the 1998 GDPPI of 103.06, and the November preliminary estimate GDPPI of 104.42. Based upon this recalculation, the Board finds that the deferred decrease of 1.3 percent for 1999 would not change.

The Board then used the November 1999 preliminary estimate of 104.42 and the November 2000 preliminary estimate GDPPI of 107.31 to recalculate the required increase or decrease for 2000. The result of that calculation shows a required

increase of 0.2 percent for the year ending December 31, 2000. That is the same increase calculated by Frontier-Iowa.

Offsetting the deferred decrease of 1.3 percent from 1999 against the required increase of 0.2 percent from 2000 results in a decrease of 1.1 percent. This is the same result calculated by Frontier-Iowa and upon which its proposed tariff is based. The Board will therefore approve the proposed tariff filed by Frontier-Iowa on November 6, 2000.

**IT IS THEREFORE ORDERED:**

1. The proposed tariff filed by Frontier Communications of Iowa, Inc., on November 6, 2000, reflecting a 1.1 percent decrease for year five of the price regulation plan is approved effective December 30, 2000.

2. Frontier Communications of Iowa, Inc., shall calculate future increases or decreases under the renewed price regulation plan approved in Docket No. RPU-00-4 as described in this order.

**UTILITIES BOARD**

/s/ Allan T. Thoms

ATTEST:

/s/ Raymond K. Vawter, Jr.  
Executive Secretary

/s/ Diane Munns

Dated at Des Moines, Iowa, this 29<sup>th</sup> day of December, 2000.